

**CITY OF NEWBURYPORT, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2015**

# CITY OF NEWBURYPORT, MASSACHUSETTS

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council  
City of Newburyport, Massachusetts

**Additional Offices:**

Nashua, NH  
Manchester, NH  
Greenfield, MA  
Ellsworth, ME

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newburyport, Massachusetts, as of and for the year ended June 30, 2015, (except for the Newburyport Contributory Retirement System, which is as of and for the year ending December 31, 2014) and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newburyport, Massachusetts, as of June 30, 2015, (except for the Newburyport Contributory Retirement System, which is as of and for the year ending December 31, 2014) and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 20 to the combined financial statements, the Newburyport Contributory Retirement System adopted Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, the Schedule of Contributions, the Schedule of Changes in Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the

United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Melanson Heath*

March 15, 2016

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Newburyport, we offer readers this narrative overview and analysis of the financial activities of the City of Newburyport for the fiscal year ended June 30, 2015.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) Notes to Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include sewer, water, and harbormaster activities.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for sewer, water, and harbormaster operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer, water, and harbormaster operations. The sewer and water operations are considered to be major funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. A complete copy of the Newburyport Contributory Retirement System financial statements can be obtained from the Retirement Board at City Hall, Newburyport, Massachusetts 02492.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary infor-



mation which is required to be disclosed by accounting principles generally accepted in the United States of America.

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets and deferred outflows of resources exceeded liabilities by \$94,646,267 (i.e., net position), a change of \$6,534,810 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$18,520,277, a change of \$3,629,247 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$6,931,551, a change of \$682,814 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$100,446,795, a change of \$5,978,172 in comparison to the prior year.

## **C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following is a summary of condensed government-wide financial data for the current and prior fiscal years (in thousands):

	<b><u>NET POSITION</u></b>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 39,509	\$ 42,923	\$ 17,427	\$ 19,986	\$ 56,936	\$ 62,909
Capital assets	129,769	113,997	92,877	94,818	222,646	208,815
Deferred outflow of resources	123	-	9	-	132	-
Total assets and deferred outflows of resources	169,401	156,920	110,313	114,804	279,714	271,724
Long-term liabilities	103,867	62,174	59,902	58,580	163,769	120,754
Other liabilities	20,411	26,749	888	2,083	21,299	28,832
Deferred inflows of resources	-	303	-	-	-	303
Total liabilities and deferred inflows of resources	124,278	89,226	60,790	60,663	185,068	149,889
Net position:						
Net investment in capital assets	72,308	58,863	41,443	41,649	113,751	100,512
Restricted	10,044	8,965	-	-	10,044	8,965
Unrestricted	(37,229)	(134)	8,080	12,492	(29,149)	12,358
Total net position	\$ 45,123	\$ 67,694	\$ 49,523	\$ 54,141	\$ 94,646	\$ 121,835

### CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 6,156	\$ 5,859	\$ 10,158	\$ 10,573	\$ 16,314	\$ 16,432
Operating grants and contributions	10,796	15,442	200	-	10,996	15,442
Capital grants and contributions	8,566	17,862	75	-	8,641	17,862
General revenues:						
Property taxes	47,651	46,105	-	-	47,651	46,105
Excises	3,178	2,895	-	-	3,178	2,895
Penalties, interest and other taxes	445	490	-	-	445	490
Grants and contributions not restricted to specific programs	2,386	2,503	-	-	2,386	2,503
Investment income	861	367	1	-	862	367
Other	<u>2,068</u>	<u>419</u>	<u>-</u>	<u>-</u>	<u>2,068</u>	<u>419</u>
Total revenues	<u>82,107</u>	<u>91,942</u>	<u>10,434</u>	<u>10,573</u>	<u>92,541</u>	<u>102,515</u>
Expenses:						
General government	7,354	6,365	-	-	7,354	6,365
Public safety	9,557	9,174	-	-	9,557	9,174
Education	41,193	45,129	-	-	41,193	45,129
Public works	5,117	5,304	-	-	5,117	5,304
Human services	2,799	2,943	-	-	2,799	2,943
Culture and recreation	3,088	3,043	-	-	3,088	3,043
Interest on long-term debt	1,633	1,453	-	-	1,633	1,453
Intergovernmental	2,573	2,737	-	-	2,573	2,737
Sewer operations	-	-	6,815	6,520	6,815	6,520
Water operations	-	-	5,615	5,160	5,615	5,160
Harbor operations	<u>-</u>	<u>-</u>	<u>262</u>	<u>303</u>	<u>262</u>	<u>303</u>
Total expenses	<u>73,314</u>	<u>76,148</u>	<u>12,692</u>	<u>11,983</u>	<u>86,006</u>	<u>88,131</u>
Change in net position before transfers	8,793	15,794	(2,258)	(1,410)	6,535	14,384
Transfers in (out)	<u>-</u>	<u>(4)</u>	<u>-</u>	<u>4</u>	<u>-</u>	<u>-</u>
Change in net position	8,793	15,790	(2,258)	(1,406)	6,535	14,384
Net position - beginning of year, as restated*	<u>36,330</u>	<u>51,904</u>	<u>51,781</u>	<u>55,547</u>	<u>88,111</u>	<u>107,451</u>
Net position - end of year	<u>\$ 45,123</u>	<u>\$ 67,694</u>	<u>\$ 49,523</u>	<u>\$ 54,141</u>	<u>\$ 94,646</u>	<u>\$ 121,835</u>

\*July 1, 2014 net position was restated for GASB 68. Due to fiscal year 2015 being the first year of implementation of GASB 68, prior periods have not been restated in accordance with the standard. Refer to Note 24.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$94,646,267, a change of \$6,534,810 from the prior year.

The largest portion of net position \$113,750,538 reflects our investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$10,044,530 represents resources that are subject to external restrictions on how they may be used. The remaining balance is an unrestricted net position deficit of \$(29,148,801). The negative balance primarily results from recording the Town's unfunded net OPEB obligation and net pension liability.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$8,792,624. Key elements of this change are as follows:

General fund revenues in excess of expenditures	\$ 1,437,698
MSBA state grant revenue	6,743,374
Other capital asset additions from current year revenues	2,488,894
Depreciation expense in excess of principal debt service	(1,291,670)
Increase in net OPEB obligation	(3,075,190)
Decrease in net pension liability of related deferred outflows	544,728
World War Memorial Stadium capital donation	500,000
Special revenue fund revenues in excess of expenditures	<u>1,444,790</u>
Total	\$ <u><u>8,792,624</u></u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$(2,257,814). The following is a summary of the changes in net position by fund:

Sewer operations	\$ (1,307,399)
Water operations	(1,065,970)
Other	<u>115,555</u>
Total	\$ <u><u>(2,257,814)</u></u>

The reduction of net position in the sewer and water funds is primarily driven by depreciation expense exceeding principal debt service payments and recording each funds respective increase of the net OPEB obligation.

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$18,520,277, a change of \$3,629,247 in comparison to the prior year. Key elements of this change are as follows:

Results of general fund operations	\$ 704,223
Bresnahan capital project fund revenues and other financing sources in excess of expenditures	611,812
Nock/Molin capital project fund expenditures in excess of revenue and other financing sources	(1,937,718)
School choice special revenue fund expenditures in excess of revenues	605,795
Other special revenue fund revenues and transfers in in excess of expenditures and transfers out	303,301
Nonmajor capital project fund revenues and other financing sources in excess of expenditures	3,344,282
Permanent fund expenditures in excess of revenues	<u>(2,448)</u>
Total	\$ <u>3,629,247</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$6,931,551, while total fund balance was \$8,131,272. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>	% of <u>Total General Fund Expenditures</u>
Unassigned fund balance	\$ 6,931,551	\$ 6,248,737	\$ 682,814	11.9%
Total fund balance	\$ 8,131,272	\$ 7,427,049	\$ 704,223	13.9%

The total fund balance of the general fund changed by \$704,223 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (1,625,247)
Revenues in excess of budget	1,019,184
Expenditures less than budget	898,873
Stabilization account activity, net	(81,117)
Current year encumbrances in excess of expenditures of prior year encumbrances	269,043
Other	<u>223,487</u>
Total	<u>\$ 704,223</u>

Included in the total general fund balance are the City's stabilization accounts with the following balances:

	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>
General stabilization	\$ 2,542,763	\$ 2,530,323	\$ 12,440
Capital stabilization	<u>237,143</u>	<u>330,700</u>	<u>(93,557)</u>
Total	<u>\$ 2,779,906</u>	<u>\$ 2,861,023</u>	<u>\$ (81,117)</u>

**Proprietary funds.** Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$8,079,906, a change of \$(4,412,512) in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

## **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$1,698,570. The reasons for these amendments include:

Cotton Farm land acquisition	\$ 275,000
Other general government appropriations	120,847
Public safety appropriations	25,239
Education appropriations	53,740
Snow and ice appropriations	294,997
Other public works appropriations	576,197
Senior Center capital project	100,000
Health and human services appropriations	17,000
Culture and recreation appropriations	<u>235,550</u>
Total	<u>\$ 1,698,570</u>

The supplemental appropriations were primarily funded by transfers from other funds and the use of free cash.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end amounted to \$222,645,958 (net of accumulated depreciation), a change of \$13,831,077 from the prior year. This investment in capital assets includes land, buildings and system, improvements, infrastructure, and machinery and equipment.

The major capital asset events during the current fiscal year included sewer and water infrastructure improvements, new construction of the Bresnahan Elementary School, renovations and additions to the Nock/Molin Schools, new construction of the Senior and Community Center, roadway improvements, DPW equipment, and police cruisers.

**Change in credit rating.** During the fiscal year, Standard and Poor's Rating Services upgraded the City's credit rating to AAA.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$100,446,795, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the Notes to Financial Statements.

## **G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Fiscal year 2015 marked the continuation of an upsurge in economic growth for the City. Economic growth indicators, including room occupancy tax, meals tax, motor vehicle excise, licenses and permits, and growth from new construction, are indicative of a very strong local economy. At the end of fiscal 2015, revenue from economic growth categories was up 5.3% over fiscal 2014, comprising 8.1% of General Fund revenues.

The City continues to expand its tax base through real estate and commercial developments. In addition to new development, the demand for residential property has encouraged owners to make intensive investments within existing homes, including the renovation of many historic properties. Re-zoning efforts have allowed the City to support new growth residentially, commercially and industrially, while ensuring preservation of the City's historic character.

The City continues to maintain strong reserve balances, including Free Cash and the Stabilization Trust Fund account. During fiscal 2016, City intends to make a deposit into its Stabilization Trust Fund in keeping with the City's policy of main-

taining a minimum balance of five percent of General Fund expenditures. During fiscal 2015, the City completed the investment of its \$475,000 trust fund for other post-employment benefits through the Massachusetts' State Retiree Benefits Trust Fund and intends to make further contributions into the trust as funds allow.

Strong departmental oversight and budget management continues to be an area of focus for the City. As has been the practice in recent years, the City continues to be conservative in its revenue estimates. The City is also nearing completion of a year-long comprehensive review of all municipal charges to ensure the full recovery of costs through rates and fees. For the fourth consecutive year, the City was awarded the Distinguished Budget Presentation Award by the Government Finance Officers Association for its fiscal 2016 budget, reflective of the City's strong budgeting and financial management practices.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Newburyport's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City Auditor  
City of Newburyport, Massachusetts  
60 Pleasant Street  
Newburyport, Massachusetts 01950

## CITY OF NEWBURYPORT, MASSACHUSETTS

## STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 35,275,184	\$ 8,836,865	\$ 44,112,049
Investments	2,314,358	-	2,314,358
Receivables, net of allowance for uncollectibles:			
Property taxes	865,479	-	865,479
Excises	204,632	-	204,632
User fees	-	2,221,351	2,221,351
Betterments	-	491,960	491,960
Intergovernmental	237,438	199,346	436,784
Other	53,614	1,827	55,441
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	546,383	-	546,383
Betterments	-	5,674,959	5,674,959
Capital assets, being depreciated, net	51,516,724	91,363,446	142,880,170
Capital assets, not being depreciated	78,252,017	1,513,771	79,765,788
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>122,526</u>	<u>9,222</u>	<u>131,748</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	169,401,318	110,312,747	279,714,065
<b>LIABILITIES</b>			
Current:			
Warrants payable	3,615,848	388,109	4,003,957
Accrued liabilities	1,759,115	456,687	2,215,802
Tax refunds payable	243,411	-	243,411
Notes payable	14,289,544	-	14,289,544
Other liabilities	502,707	43,472	546,179
Current portion of long-term liabilities:			
Bonds payable	2,375,791	3,352,983	5,728,774
Compensated absences	377,334	15,537	392,871
Noncurrent:			
Bonds payable, net of current portion	42,755,086	51,962,935	94,718,021
Compensated absences, net of current portion	3,396,006	139,833	3,535,839
Net OPEB obligation	24,022,177	2,101,475	26,123,652
Net pension liability	<u>30,940,865</u>	<u>2,328,883</u>	<u>33,269,748</u>
<b>TOTAL LIABILITIES</b>	124,277,884	60,789,914	185,067,798
<b>NET POSITION</b>			
Net investment in capital assets	72,307,611	41,442,927	113,750,538
Restricted for:			
Grants and other statutory restrictions	7,819,560	-	7,819,560
Permanent funds			
Nonexpendable	1,281,245	-	1,281,245
Expendable	943,725	-	943,725
Unrestricted	<u>(37,228,707)</u>	<u>8,079,906</u>	<u>(29,148,801)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 45,123,434</u>	<u>\$ 49,522,833</u>	<u>\$ 94,646,267</u>

The accompanying notes are an integral part of these financial statements.



## CITY OF NEWBURYPORT, MASSACHUSETTS

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Capital	Governmental	Business-	
		Services	Grants and	Grants and	Activities	Type	Total
			Contributions	Contributions		Activities	
		Expenses					
<b>Governmental Activities:</b>							
General government	\$ 7,353,811	\$ 2,351,750	\$ 1,400,755	\$ 187,775	\$ (3,413,531)	\$ -	\$ (3,413,531)
Public safety	9,556,543	723,279	184,758	-	(8,648,506)	-	(8,648,506)
Education	41,192,927	2,200,627	8,947,402	7,414,409	(22,630,489)	-	(22,630,489)
Public works	5,117,369	247,761	6,375	926,081	(3,937,152)	-	(3,937,152)
Health and human services	2,799,244	200,559	251,047	-	(2,347,638)	-	(2,347,638)
Culture and recreation	3,088,251	431,814	5,880	37,720	(2,612,837)	-	(2,612,837)
Interest on debt service	1,632,585	-	-	-	(1,632,585)	-	(1,632,585)
Intergovernmental	2,572,885	-	-	-	(2,572,885)	-	(2,572,885)
Total Governmental Activities	73,313,615	6,155,790	10,796,217	8,565,985	(47,795,623)	-	(47,795,623)
<b>Business-Type Activities:</b>							
Sewer services	6,815,218	5,431,273	-	75,400	-	(1,308,545)	(1,308,545)
Water services	5,615,356	4,349,060	200,312	-	-	(1,065,984)	(1,065,984)
Other services	262,538	378,093	-	-	-	115,555	115,555
Total Business-Type Activities	12,693,112	10,158,426	200,312	75,400	-	(2,258,974)	(2,258,974)
Total	\$ 86,006,727	\$ 16,314,216	\$ 10,996,529	\$ 8,641,385	(47,795,623)	(2,258,974)	(50,054,597)
<b>General Revenues:</b>							
Property taxes					47,651,002	-	47,651,002
Excises					3,177,923	-	3,177,923
Penalties, interest and other taxes					444,809	-	444,809
Grants and contributions not restricted to specific programs					2,386,003	-	2,386,003
Investment income					860,706	1,160	861,866
Other					2,067,804	-	2,067,804
Total general revenues					56,588,247	1,160	56,589,407
Change in Net Position					8,792,624	(2,257,814)	6,534,810
<b>Net Position:</b>							
Beginning of year, as restated					36,330,810	51,780,647	88,111,457
End of year					\$ 45,123,434	\$ 49,522,833	\$ 94,646,267

The accompanying notes are an integral part of these financial statements.

## CITY OF NEWBURYPORT, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2015

	<u>General</u>	<u>Bresnahan School Building Project</u>	<u>Nock/Molin School Building Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and short-term investments	\$ 11,602,462	\$ 3,060,352	\$ 2,684,926	\$ 17,927,444	\$ 35,275,184
Investments	-	-	-	2,314,358	2,314,358
Receivables:					
Property taxes	1,931,382	-	-	10,951	1,942,333
Excises	659,053	-	-	-	659,053
Intergovernmental	-	-	-	237,438	237,438
Departmental	53,614	-	-	12,963	66,577
<b>TOTAL ASSETS</b>	<b>\$ 14,246,511</b>	<b>\$ 3,060,352</b>	<b>\$ 2,684,926</b>	<b>\$ 20,503,154</b>	<b>\$ 40,494,943</b>
<b>LIABILITIES</b>					
Warrants payable	\$ 2,134,516	\$ 17,460	\$ 34,624	\$ 1,429,248	\$ 3,615,848
Accrued liabilities	1,233,601	-	-	-	1,233,601
Tax refunds payable	243,411	-	-	-	243,411
Notes payable	-	4,070,026	4,450,083	5,769,435	14,289,544
Other liabilities	502,707	-	-	-	502,707
<b>TOTAL LIABILITIES</b>	<b>4,114,235</b>	<b>4,087,486</b>	<b>4,484,707</b>	<b>7,198,683</b>	<b>19,885,111</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>2,001,004</b>	<b>-</b>	<b>-</b>	<b>88,551</b>	<b>2,089,555</b>
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	1,281,245	1,281,245
Restricted	-	-	-	12,235,399	12,235,399
Committed	237,143	-	-	-	237,143
Assigned	962,578	-	-	-	962,578
Unassigned	6,931,551	(1,027,134)	(1,799,781)	(300,724)	3,803,912
<b>TOTAL FUND BALANCES</b>	<b>8,131,272</b>	<b>(1,027,134)</b>	<b>(1,799,781)</b>	<b>13,215,920</b>	<b>18,520,277</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES</b>	<b>\$ 14,246,511</b>	<b>\$ 3,060,352</b>	<b>\$ 2,684,926</b>	<b>\$ 20,503,154</b>	<b>\$ 40,494,943</b>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET ASSETS OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2015

<b>Total governmental fund balances</b>	\$ 18,520,277
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	129,768,741
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	1,104,663
<ul style="list-style-type: none"><li>• Deferred outflows of resources related to pensions resulting from projected vs. actual earnings will be recognized as an increase to the net pension liability in the years ending June 30, 2016 through June 30, 2019.</li></ul>	122,526
<ul style="list-style-type: none"><li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(525,514)
<ul style="list-style-type: none"><li>• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:</li></ul>	
Bonds payable	(45,130,877)
Net OPEB obligation	(24,022,177)
Net pension liability	(30,940,865)
Compensated absences	<u>(3,773,340)</u>
<b>Net position of governmental activities</b>	<u><u>\$ 45,123,434</u></u>

The accompanying notes are an integral part of these financial statements.

## CITY OF NEWBURYPORT, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Bresnahan School Building Project</u>	<u>Nock/Molin School Building Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 47,914,116	\$ -	\$ -	\$ 750,512	\$ 48,664,628
Excise taxes	3,203,463	-	-	-	3,203,463
Interest, penalties, & other taxes	441,856	-	-	2,953	444,809
Charges for services	691,586	-	-	4,081,389	4,772,975
Licenses and permits	735,511	-	-	-	735,511
Intergovernmental	6,641,211	3,849,546	2,893,828	4,693,665	18,078,250
Investment income	86,455	-	-	597,960	684,415
Fines and forfeitures	8,027	-	-	-	8,027
Contributions	-	-	171,035	500,000	671,035
Other	151,831	104,890	604,000	1,207,083	2,067,804
Total Revenues	59,874,056	3,954,436	3,668,863	11,833,562	79,330,917
Expenditures:					
Current:					
General government	2,970,078	-	-	3,306,527	6,276,605
Public safety	7,106,938	-	-	198,078	7,305,016
Education	24,818,871	5,340,824	6,777,381	3,647,032	40,584,108
Public works	3,447,714	-	-	1,269,093	4,716,807
Health & human services	2,068,651	-	-	4,757,999	6,826,650
Culture and recreation	1,447,637	-	-	736,116	2,183,753
Employee benefits	10,763,374	-	-	592,256	11,355,630
Debt service	3,240,210	-	-	309,006	3,549,216
Intergovernmental	2,572,885	-	-	-	2,572,885
Total Expenditures	58,436,358	5,340,824	6,777,381	14,816,107	85,370,670
Excess (deficiency) of revenues over expenditures	1,437,698	(1,386,388)	(3,108,518)	(2,982,545)	(6,039,753)
Other Financing Sources (Uses):					
Issuance of bonds	-	1,918,000	1,124,000	6,238,000	9,280,000
Premiums on issuance of bonds	-	80,200	46,800	262,000	389,000
Transfers in	374,069	-	-	1,501,423	1,875,492
Transfers out	(1,107,544)	-	-	(767,948)	(1,875,492)
Total Other Financing Sources (Uses)	(733,475)	1,998,200	1,170,800	7,233,475	9,669,000
Change in fund balances	704,223	611,812	(1,937,718)	4,250,930	3,629,247
Fund Balance, at Beginning of Year, as reclassified	7,427,049	(1,638,946)	137,937	8,964,990	14,891,030
Fund Balance, at End of Year	\$ 8,131,272	\$ (1,027,134)	\$ (1,799,781)	\$ 13,215,920	\$ 18,520,277

The accompanying notes are an integral part of these financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

<b>Net Changes in Fund Balances - Total Governmental Funds</b>	<b>\$ 3,629,247</b>																						
<ul style="list-style-type: none"> <li>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td>Capital outlay purchases</td><td>19,058,834</td></tr> <tr> <td>Depreciation</td><td>(3,286,945)</td></tr> </table> </li> <li>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table> <tr> <td></td><td>(322,288)</td></tr> </table> </li> <li>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td>Issuances of general obligation bonds</td><td>(9,280,000)</td></tr> <tr> <td>Premiums on general obligation bonds</td><td>(389,000)</td></tr> <tr> <td>Repayments of debt</td><td>1,995,275</td></tr> <tr> <td>Current year amortization of bond premiums</td><td>176,291</td></tr> </table> </li> <li>In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table> <tr> <td></td><td>(78,644)</td></tr> </table> </li> <li>Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the <table> <tr> <td>Change in compensated absences</td><td>(179,684)</td></tr> <tr> <td>Change in net OPEB obligation</td><td>(3,075,190)</td></tr> <tr> <td>Change in net pension liability, net of related deferred outflows</td><td><u>544,728</u></td></tr> </table> </li> </ul>	Capital outlay purchases	19,058,834	Depreciation	(3,286,945)		(322,288)	Issuances of general obligation bonds	(9,280,000)	Premiums on general obligation bonds	(389,000)	Repayments of debt	1,995,275	Current year amortization of bond premiums	176,291		(78,644)	Change in compensated absences	(179,684)	Change in net OPEB obligation	(3,075,190)	Change in net pension liability, net of related deferred outflows	<u>544,728</u>	
Capital outlay purchases	19,058,834																						
Depreciation	(3,286,945)																						
	(322,288)																						
Issuances of general obligation bonds	(9,280,000)																						
Premiums on general obligation bonds	(389,000)																						
Repayments of debt	1,995,275																						
Current year amortization of bond premiums	176,291																						
	(78,644)																						
Change in compensated absences	(179,684)																						
Change in net OPEB obligation	(3,075,190)																						
Change in net pension liability, net of related deferred outflows	<u>544,728</u>																						
<b>Change in Net Position of Governmental Activities</b>	<b>\$ <u>8,792,624</u></b>																						

The accompanying notes are an integral part of these financial statements.

## CITY OF NEWBURYPORT, MASSACHUSETTS

## GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES -  
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues and Transfers:</b>				
Property taxes	\$ 47,991,373	\$ 47,690,627	\$ 47,690,627	\$ -
Excise taxes	2,890,000	2,890,000	3,203,463	313,463
Charges for services	355,000	355,000	691,586	336,586
Interest, penalties, and other taxes	395,000	395,000	441,856	46,856
Licenses and permits	650,000	650,000	735,511	85,511
Intergovernmental	6,510,861	6,510,861	6,641,211	130,350
Investment income	45,000	45,000	46,558	1,558
Fines and forfeits	15,000	15,000	8,027	(6,973)
Other	40,000	40,000	151,831	111,831
Transfers in	-	374,069	374,069	-
Total Revenues and Transfers In	58,892,234	58,965,557	59,984,739	1,019,182
<b>Expenditures and Transfers:</b>				
General government	2,929,287	2,907,966	2,870,091	37,875
Public safety	7,046,375	7,178,982	7,005,667	173,315
Education	25,485,686	25,507,551	25,507,551	-
Public works	2,412,884	3,335,380	3,227,812	107,568
Health and human service	2,139,068	2,224,140	2,079,840	144,300
Culture and recreation	1,463,664	1,463,664	1,429,702	33,962
Employee benefits	11,424,333	10,945,395	10,721,384	224,011
Debt service	3,375,897	3,375,897	3,240,210	135,687
Intergovernmental	2,615,040	2,615,040	2,572,885	42,155
Transfers out	-	1,036,789	1,036,789	-
Total Expenditures and Transfer Out	58,892,234	60,590,804	59,691,931	898,873
Excess (deficiency) revenues and transfers in over expenditures and transfers out	-	(1,625,247)	292,808	1,918,055
<b>Other Financing Sources:</b>				
Use of free cash:				
For operating budget support	-	332,237	-	(332,237)
For capital projects	-	771,289	-	(771,289)
For Cotton Farm land acquisition	-	275,000	-	(275,000)
For snow and ice expenses	-	136,856	-	(136,856)
Other	-	108,365	-	(108,365)
Use of overlay surplus	-	1,500	-	(1,500)
Excess revenues, transfers in, and other sources over expenditures and transfers out	\$ -	\$ -	\$ 292,808	\$ 292,808

The accompanying notes are an integral part of these financial statements.

## CITY OF NEWBURYPORT, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET POSITION

JUNE 30, 2015

	Business-Type Activities - Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Funds	Total
<b>ASSETS</b>				
Current:				
Cash and short-term investments	\$ 4,019,686	\$ 4,415,010	\$ 402,169	\$ 8,836,865
User fee receivables	1,228,582	960,974	31,795	2,221,351
Betterment receivables	336,414	155,546	-	491,960
Intergovernmental receivables	199,346	-	-	199,346
Other assets	1,827	-	-	1,827
Noncurrent:				
Betterment receivables	3,878,911	1,796,048	-	5,674,959
Capital assets, being depreciated, net	47,487,753	43,721,238	154,455	91,363,446
Capital assets, not being depreciated	456,450	822,559	234,762	1,513,771
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>3,952</u>	<u>5,270</u>	<u>-</u>	<u>9,222</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	57,612,921	51,876,645	823,181	110,312,747
<b>LIABILITIES</b>				
Current:				
Warrants payable	207,360	180,749	-	388,109
Accrued liabilities	271,543	185,144	-	456,687
Other liabilities	-	2,178	41,294	43,472
Current portion of long-term liabilities:				
Bonds payable	1,786,003	1,566,980	-	3,352,983
Compensated absences	4,072	11,465	-	15,537
Noncurrent:				
Bonds payable, net of current portion	30,595,839	21,367,096	-	51,962,935
Compensated absences, net of current portion	36,652	103,181	-	139,833
Net OPEB Obligation	908,847	1,192,628	-	2,101,475
Net pension liability	<u>998,093</u>	<u>1,330,790</u>	<u>-</u>	<u>2,328,883</u>
<b>TOTAL LIABILITIES</b>	34,808,409	25,940,211	41,294	60,789,914
<b>NET POSITION</b>				
Net investment in capital assets	17,160,432	23,893,278	389,217	41,442,927
Unrestricted	<u>5,644,080</u>	<u>2,043,156</u>	<u>392,670</u>	<u>8,079,906</u>
<b>TOTAL NET POSITION</b>	<u>\$ 22,804,512</u>	<u>\$ 25,936,434</u>	<u>\$ 781,887</u>	<u>\$ 49,522,833</u>

The accompanying notes are an integral part of these financial statements.

## CITY OF NEWBURYPORT, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities - Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Funds	Total
<b>Operating Revenues:</b>				
Charges for services	\$ 5,431,273	\$ 4,349,060	\$ 378,093	\$ 10,158,426
Total Operating Revenues	5,431,273	4,349,060	378,093	10,158,426
<b>Operating Expenses:</b>				
Personnel services	2,132,671	1,822,828	198,323	4,153,822
Non-personnel services	1,670,460	1,176,726	43,251	2,890,437
Depreciation	2,365,946	1,984,176	20,964	4,371,086
Total Operating Expenses	6,169,077	4,983,730	262,538	11,415,345
Operating Income (Loss)	(737,804)	(634,670)	115,555	(1,256,919)
<b>Nonoperating Revenues (Expenses):</b>				
Intergovernmental	-	200,312	-	200,312
Interest income	1,146	14	-	1,160
Interest expense	(646,141)	(631,626)	-	(1,277,767)
Total Nonoperating Revenues (Expenses), Net	(644,995)	(431,300)	-	(1,076,295)
Income (Loss) before transfers	(1,382,799)	(1,065,970)	115,555	(2,333,214)
Capital contributions	75,400	-	-	75,400
Change in Net Position	(1,307,399)	(1,065,970)	115,555	(2,257,814)
Net Position at Beginning of Year, as restated	24,111,911	27,002,404	666,332	51,780,647
Net Position at End of Year	\$ 22,804,512	\$ 25,936,434	\$ 781,887	\$ 49,522,833

The accompanying notes are an integral part of these financial statements.



## CITY OF NEWBURYPORT, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities - Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Funds	Total
<b><u>Cash Flows From Operating Activities:</u></b>				
Receipts from customers and users	\$ 5,464,841	\$ 4,440,400	\$ 379,568	\$ 10,284,809
Payments to employees	(1,690,606)	(1,562,973)	(198,323)	(3,451,902)
Payments to vendors	(1,751,377)	(1,021,389)	(2,201)	(2,774,967)
Net Cash Provided By Operating Activities	2,022,858	1,856,038	179,044	4,057,940
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>				
Intergovernmental	126,998	341,525	-	468,523
Betterments	528,520	361,343	-	889,863
Net Cash Provided By Noncapital Financing Activities	655,518	702,868	-	1,358,386
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>				
Acquisition and construction of capital assets	(532,668)	(1,802,844)	(94,762)	(2,430,274)
Capital contributions	75,400	-	-	75,400
Proceeds from issuance of bonds and notes	-	2,173,589	-	2,173,589
Principal payments on bonds and notes	(1,967,927)	(3,266,137)	-	(5,234,064)
Interest expense	(646,141)	(631,626)	-	(1,277,767)
Net Cash (Used For) Capital and Related Financing Activities	(3,071,336)	(3,527,018)	(94,762)	(6,693,116)
<b>Cash Flows From Investing Activities:</b>				
Investment income	1,146	14	-	1,160
Net Cash Provided By Investing Activities	1,146	14	-	1,160
Net Change in Cash and Short-Term Investments	(391,814)	(968,098)	84,282	(1,275,630)
Cash and Short-Term Investments, Beginning of Year	4,411,500	5,383,108	317,887	10,112,495
Cash and Short-Term Investments, End of Year	\$ 4,019,686	\$ 4,415,010	\$ 402,169	\$ 8,836,865
<b><u>Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:</u></b>				
Operating income (loss)	\$ (737,804)	\$ (634,670)	\$ 115,555	\$ (1,256,919)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	2,365,946	1,984,176	20,964	4,371,086
Changes in assets and liabilities:				
User fees	35,395	91,340	1,475	128,210
Other assets	(1,827)	-	-	(1,827)
Warrants payable	207,360	180,749	-	388,109
Accrued liabilities	(51,246)	(30,551)	-	(81,797)
Net OPEB obligation	221,076	283,284	-	504,360
Net pension liability	(13,619)	(18,159)	-	(31,778)
Other liabilities	1,529	5,139	41,050	47,718
Deferred outflows of resources	(3,952)	(5,270)	-	(9,222)
Net Cash Provided By Operating Activities	\$ 2,022,858	\$ 1,856,038	\$ 179,044	\$ 4,057,940

The accompanying notes are an integral part of these financial statements.

## CITY OF NEWBURYPORT, MASSACHUSETTS

## FIDUCIARY FUNDS

## STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

	Pension Trust Fund (For the Year Ended December 31, 2014)	OPEB Trust Fund	Agency Funds
<b>ASSETS</b>			
Cash	\$ 1,166,272	\$ 475,000	\$ 314,101
Investments	65,498,669	-	-
Accounts receivable	63,433	-	-
Other assets	-	-	146,025
Total Assets	66,728,374	475,000	460,126
<b>LIABILITIES</b>			
Warrants payable	-	-	155,639
Other liabilities	2,930	-	304,487
Total Liabilities	2,930	-	460,126
<b>NET POSITION</b>			
Total net position restricted for pensions and other purposes	\$ <u>66,725,444</u>	\$ <u>475,000</u>	\$ <u>-</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2015

	Pension Trust Fund (For the Year Ended December 31, 2014)	OPEB Trust Fund
<b>Additions:</b>		
Contributions:		
Employers	\$ 4,097,964	\$ 450,000
Plan members	1,691,328	-
Other systems and Commonwealth of Massachusetts	<u>248,299</u>	<u>-</u>
Total contributions	6,037,591	450,000
Investment Income:		
Appreciation in fair value of investments	4,998,942	-
Less: management fees	<u>(341,683)</u>	<u>-</u>
Net investment income	<u>4,657,259</u>	<u>-</u>
Total additions	10,694,850	450,000
<b>Deductions:</b>		
Benefit payments to plan members and beneficiaries	5,889,319	-
Refunds to plan members	110,786	-
Transfers to other systems	198,424	-
Administrative expenses	<u>191,359</u>	<u>-</u>
Total deductions	<u>6,389,888</u>	<u>-</u>
Net increase	4,304,962	450,000
<b>Net position restricted for pensions and other purposes:</b>		
Beginning of year	<u>62,420,482</u>	<u>25,000</u>
End of year	<u>\$ 66,725,444</u>	<u>\$ 475,000</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF NEWBURYPORT, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

The accounting policies of the City of Newburyport (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

#### A. Reporting Entity

The government is a municipal corporation governed by an elected Mayor and City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

The Newburyport Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System and complete financial statements can be obtained by contacting the System located at 16 Unicorn Street, Newburyport, Massachusetts 01950.

#### B. Government-wide and Fund Financial Statements

##### Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

*Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and

contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### C. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

#### Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

#### Fund Financial Statements

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Bresnahan School Building Project Fund accounts for the financing and construction costs related to the new Bresnahan elementary school.
- The *Nock/Molin School Building Project Fund* accounts for the financing and construction costs related to major renovations at the Nock/Molin schools.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

- The *Sewer Fund* is used to report the City's sewer operations
- The *Water Fund* is used to report the City's water operations

The *Pension Trust Fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *OPEB Trust Fund* is used to account for reserves set aside by the City to fund future OPEB costs.

The *Agency Fund* is custodial in nature and is used to account for funds held for other. The fund reports only assets and liabilities, and therefore, has no measurement focus.

#### D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

#### *E. Investments*

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

#### *F. Property Tax Limitations*

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2½ percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2015 tax levy reflected an excess capacity of approximately \$358,356.

#### *G. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25 - 50
Land improvements	10 - 50
Infrastructure	25 - 50
Machinery and equipment	3 - 20
Vehicles	3 - 10

*H. Compensated Absences*

It is the government’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

*I. Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

*J. Fund Equity*

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.



The City's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the City Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

#### K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

## **2. Stewardship, Compliance, and Accountability**

### **A. Budgetary Information**

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

### **B. Budgetary Basis**

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

### **C. Budget/GAAP Reconciliation**

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 59,874,056	\$ 58,436,358
Other financing sources/uses (GAAP Basis)	<u>374,069</u>	<u>1,107,544</u>
Subtotal (GAAP Basis)	60,248,125	59,543,902
To adjust property tax revenue to the Budgetary Basis	(223,489)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(693,535)
Add end-of-year appropriation carryforwards from expenditures	-	962,578
Stabilization activity	<u>(39,897)</u>	<u>(121,014)</u>
Budgetary Basis	<u>\$ 59,984,739</u>	<u>\$ 59,691,931</u>

#### D. Deficit Fund Equity

The City's special revenue funds and capital project funds reflect various individual deficit fund balance accounts, which will be funded by future receipts and/or bond issuances.

### **3. Cash and Short-Term Investments**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned.

Massachusetts General Law Chapter 44, Section 55, limits the City's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The City does not have a deposit policy for custodial credit risk.

As of June 30, 2015, \$2,662,347 of the City's bank balances of \$45,443,184 was exposed to custodial credit risk as uninsured or uncollateralized.

The Contributory Retirement System (the System) does not have a deposit policy for custodial credit risk.

As of December 31, 2014, \$100,053 of the Contributory Retirement System's bank balance of \$1,271,123 was exposed to custodial credit risk as uninsured or uncollateralized. This balance was on deposit with the Pension Reserve Investment Trust (PRIT).

#### 4. Investments

Statutes authorize the Investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investments of funds of savings banks under the laws of the Commonwealth.

##### A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of year-end for each investment of the City (All federal agency securities have an implied credit rating of AAA):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Aaa</u>
Federal agency securities	\$ 50	\$ -	\$ 50
Corporate equities	2,088	2,088	-
Mutual funds	126	126	-
Certificates of deposit	50	50	-
Total investments	<u>\$ 2,314</u>	<u>\$ 2,264</u>	<u>\$ 50</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

As of December 31, 2014, the System's investments of \$65,498,669 were exposed to credit risk as uninsured and uncollateralized. However, the investments were held in the State investment pool (PRIT).

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>
State Investment Pool	\$ 65,499	\$ 65,499

*\*Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

#### **B. Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City and System do not have policies for custodial credit risk.

The City's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the City's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC. The System's investments were held in the State investment pool (PRIT).

#### **C. Concentration of Credit Risk**

The City places no limit on the amount the City may invest in any one issuer. There were no investments in any one issuer (other than mutual funds) that represent 5% or more of total investments.

The Retirement System places no limit on the amount invested in any one issuer. The System does not have an investment in one issuer greater than 5% of total investments.

#### **D. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City does not have a formal invest-

ment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the City investments to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>	
	<u>Fair Value</u>	<u>1-5</u>
Federal agency securities	\$ 50	\$ 50
Certificates of deposit	<u>50</u>	<u>50</u>
Total	<u>\$ 100</u>	<u>\$ 100</u>

The Retirement System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### *E. Foreign Currency Risk*

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City and System do not have policies for foreign currency risk.

## **5. Taxes and Motor Vehicle Receivables**

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to. Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25.00 per \$1,000 of value.

Tax and motor vehicle receivables (net of allowance for doubtful accounts) at June 30, 2015 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 1,096,311	\$ (261,131)	\$ 835,180
Personal property taxes	227,979	(208,631)	19,348
Tax liens	607,092	(60,709)	546,383
Community preservation taxes	<u>10,951</u>	<u>-</u>	<u>10,951</u>
Total property taxes	1,942,333	(530,471)	1,411,862
Motor vehicle excise	566,066	(361,434)	204,632
Boat excise	<u>92,987</u>	<u>(92,987)</u>	<u>-</u>
Total excise taxes	<u>659,053</u>	<u>(454,421)</u>	<u>204,632</u>
Grand total	<u>\$ 2,601,386</u>	<u>\$ (984,892)</u>	<u>\$ 1,616,494</u>

## 6. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2015.

## 7. Interfund Transfers In and (Out)

The City reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2015.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 374,069	\$ 1,107,544
Nonmajor Governmental Funds:		
Downtown paid parking	-	365,000
Other special revenue funds	68,700	402,948
Capital project funds	<u>1,432,723</u>	<u>-</u>
Total	<u>\$ 1,875,492</u>	<u>\$ 1,875,492</u>

The \$1,107,544 transfer out of the general fund to the capital project fund represents the Town's practice of funding certain capital activity from general fund revenues. The \$365,000 transfer from the downtown paid parking fund is also funding various related capital improvements. The City's other routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows (in thousands):

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 71,032	\$ 468	\$ -	\$ 71,500
Infrastructure	29,926	1,427	-	31,353
Machinery and equipment	4,755	244	-	4,999
Total capital assets, being depreciated	105,713	2,139	-	107,852
Less accumulated depreciation for:				
Buildings and improvements	(28,027)	(2,377)	-	(30,404)
Infrastructure	(21,709)	(590)	-	(22,299)
Machinery and equipment	(3,312)	(320)	-	(3,632)
Total accumulated depreciation	(53,048)	(3,287)	-	(56,335)
Total capital assets, being depreciated, net	52,665	(1,148)	-	51,517
Capital assets, not being depreciated:				
Land	9,478	-	-	9,478
CIP	51,854	16,920	-	68,774
Total capital assets, not being depreciated	61,332	16,920	-	78,252
Governmental activities capital assets, net	<u>\$ 113,997</u>	<u>\$ 15,772</u>	<u>\$ -</u>	<u>\$ 129,769</u>
	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,358	\$ 51	\$ -	\$ 1,409
Infrastructure	132,312	2,032	-	134,344
Machinery and equipment	2,591	94	-	2,685
Total capital assets, being depreciated	136,261	2,177	-	138,438
Less accumulated depreciation for:				
Buildings and improvements	(387)	(70)	-	(457)
Infrastructure	(41,009)	(4,135)	-	(45,144)
Machinery and equipment	(1,308)	(166)	-	(1,474)
Total accumulated depreciation	(42,704)	(4,371)	-	(47,075)
Total capital assets, being depreciated, net	93,557	(2,194)	-	91,363
Capital assets, not being depreciated:				
Land	1,261	-	-	1,261
Construction in progress	-	253	-	253
Total capital assets, not being depreciated	1,261	253	-	1,514
Business-type activities capital assets, net	<u>\$ 94,818</u>	<u>\$ (1,941)</u>	<u>\$ -</u>	<u>\$ 92,877</u>



Depreciation expense was charged to functions of the City as follows (in thousands):

Governmental Activities:		
General government	\$	325
Public safety		373
Education		1,034
Public works		755
Health and human services		20
Culture and recreation		<u>780</u>
Total depreciation expense - governmental activities	\$	<u><u>3,287</u></u>
Business-Type Activities:		
Sewer	\$	2,366
Water		1,984
Harbormaster		<u>21</u>
Total depreciation expense - business-type activities	\$	<u><u>4,371</u></u>

## 9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2015:

	<u>Entity-wide Basis</u>		<u>Fund Basis</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Proprietary Funds Sewer</u>	<u>Water</u>
Net difference between projected and actual pension investment earnings	\$ 122,526	\$ 9,222	\$ 3,952	\$ 5,270

## 10. Warrants and Accounts Payable

Warrants payable represent 2015 expenditures paid by July 15, 2015. Accounts payable represent additional 2015 expenditures paid after July 15, 2015.

## 11. Other Liabilities

Other liabilities reported in the general fund consist primarily of tax refunds due and various payroll deductions.

## 12. Anticipation Notes Payable

The following summarizes activity in notes payable as well as notes outstanding at June 30, 2015:

	Interest Rate	Date of Issue	Date of Maturity	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
<u>Governmental Activities:</u>							
Senior Center	1.00%	01/07/14	10/24/14	\$ 2,200,000	\$ -	\$ (2,200,000)	\$ -
Schools	1.00%	01/07/14	10/24/14	2,900,000	-	(2,900,000)	-
Schools	0.50%	02/14/14	10/24/14	12,400,000	-	(12,400,000)	-
Bresnahan School	1.00%	10/24/14	10/23/15	-	4,070,026	-	4,070,026
Nock/Molin School	1.00%	10/24/14	10/23/15	-	4,450,083	-	4,450,083
Nock/Molin baseball field	0.85%	06/04/15	10/23/15	-	1,700,000	-	1,700,000
World War Memorial stadium field	0.85%	06/04/15	10/23/15	-	3,027,435	-	3,027,435
Cherry Hill soccer field	0.85%	06/04/15	10/23/15	-	134,000	-	134,000
Fire trucks	0.85%	06/04/15	10/23/15	-	908,000	-	908,000
Total Governmental Activities				\$ 17,500,000	\$ 14,289,544	\$ (17,500,000)	\$ 14,289,544
<u>Business-Type Activities:</u>							
Water system improvements	1.00%	01/07/14	10/24/14	\$ 1,400,000	\$ -	\$ (1,400,000)	\$ -
MWPAT Interim Loan	0.00%	06/30/14	Upon completion	141,213	-	(141,213)	-
MWPAT Interim Loan	0.10%	07/01/14	Upon completion	-	300,000	(300,000)	-
Total Business-Type Activities				\$ 1,541,213	\$ 300,000	\$ (1,841,213)	\$ -

## 13. Long-Term Debt

### A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Interest Rate(s) %</u>	<u>Serial Maturities Through</u>	<u>Amount Outstanding as of 6/30/15</u>
City hall	4.00 - 7.00%	2019	\$ 600,000
Land acquisition	4.00 - 7.00%	2019	380,000
Equipment	4.25 - 5.00%	2017	165,000
Drainage	4.25 - 5.00%	2017	120,000
Central server - IT	4.25 - 5.00%	2016	10,000
Recreational facility	4.25 - 5.00%	2017	15,000
School renovations	4.25 - 5.00%	2017	155,000
Fire Truck	3.50 - 6.00%	2018	200,000
Inn street electrical	3.50 - 6.00%	2018	40,000
Stormwater management	3.50 - 6.00%	2018	200,000
Street paving	3.50 - 6.00%	2018	200,000
Relocation of N. Res Terr.	3.50 - 6.00%	2018	20,000
City hall restrooms	3.50 - 6.00%	2016	5,000
School building improvements	3.50 - 6.00%	2018	300,000
School refunding	2.00 - 2.50%	2017	38,000
Library refunding	2.00 - 2.50%	2017	83,000
Library renovations refunding	2.00 - 3.00%	2021	871,000
Land acquisition refunding	2.00 - 3.00%	2018	92,000
City hall refunding	2.00 - 3.00%	2020	51,000
Bresnahan school	2.50 - 5.00%	2038	15,126,000
Nock/Molin school	2.50 - 5.00%	2038	10,359,000
High school	2.50 - 5.00%	2033	1,116,900
Boardwalk I	2.50 - 4.00%	2023	62,700
Boardwalk II	2.50 - 4.00%	2017	58,000
Boardwalk III	2.50 - 4.00%	2017	19,300
High school	2.50 - 5.00%	2025	2,677,300
School demountables	2.50 - 4.00%	2018	149,700
Bresnahan school	2.125 - 5.00%	2035	1,918,000
Nock/Molin school	2.125 - 5.00%	2035	1,124,000
Senior and community center	2.125 - 5.00%	2035	6,238,000
Total Governmental Activities Debt:			<u>\$ 42,393,900</u>

<u>Business-Type Activities:</u>	<u>Interest Rate(s) %</u>	<u>Serial Maturities Through</u>	<u>Amount Outstanding as of 6/30/15</u>
Sewer	3.50 - 5.00%	2025	\$ 220,000
Sewer	4.00 - 7.00%	2019	200,000
Sewer	4.00 - 7.00%	2019	920,000
Sewer	4.00 - 7.00%	2019	405,000
MWPAT	0.75%	2019	3,585,000
Plum Island	2.00%	2038	928,352
Sewer	4.25 - 5.00%	2017	45,000
Sewer mains	4.25 - 5.00%	2017	90,000
Wastewater plant refund	2.00 - 3.25%	2021	525,000
Sewer	2.00 - 4.00%	2028	3,280,000
MWPAT	2.00%	2031	3,426,775
MWPAT	2.00%	2033	5,608,556
Sewer	2.50 - 5.00%	2033	470,000
MWPAT	2.00%	2033	12,298,859
Sewer	2.50 - 5.00%	2025	379,300
MWPAT	3.40 - 5.25%	2025	1,557,307
MWPAT	3.00 - 5.25	2025	2,115,000
Plum Island	2.00%	2038	619,060
Water	4.00 - 7.00%	2019	360,000
Water	4.00 - 7.00%	2019	470,000
MWPAT	0.00%	2025	177,331
Water refunding	2.00 - 2.50%	2017	265,000
Water improv. refunding	2.00 - 3.25%	2021	535,000
MWPAT	2.00%	2033	7,573,974
Water	2.50 - 5.00%	2033	1,000,000
MWPAT	2.00%	2033	5,836,796
Water	2.50 - 5.00%	2025	300,700
Plum Island water	2.50 - 5.00%	2025	266,100
Water system improvements	3.00 - 5.00%	2025	300,000
MWPAT	2.00%	2035	<u>1,400,000</u>
Total Business-Type Activities Debt:			<u>\$ 55,158,110</u>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2015 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,199,500	\$ 1,594,432	\$ 3,793,932
2017	2,191,100	1,511,579	3,702,679
2018	2,161,300	1,423,545	3,584,845
2019	1,991,700	1,339,919	3,331,619
2020	1,566,100	1,257,599	2,823,699
2021 - 2025	8,889,200	5,224,645	14,113,845
2026 - 2030	11,165,000	3,123,450	14,288,450
2031 - 2035	10,800,000	1,106,018	11,906,018
Thereafter	<u>1,430,000</u>	<u>84,663</u>	<u>1,514,663</u>
Total	<u>\$ 42,393,900</u>	<u>\$ 16,665,850</u>	<u>\$ 59,059,750</u>

The general fund has been designated as the source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2015:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 3,337,202	\$ 1,506,002	\$ 4,843,204
2017	3,425,599	1,392,335	4,817,934
2018	3,340,646	1,281,848	4,622,494
2019	3,356,783	1,181,520	4,538,303
2020	3,384,716	1,078,126	4,462,842
2021 - 2025	16,696,866	3,863,702	20,560,568
2026 - 2030	13,228,678	1,795,164	15,023,842
2031 - 2035	8,169,630	343,907	8,513,537
Thereafter	<u>217,990</u>	<u>504</u>	<u>218,494</u>
Total	<u>\$ 55,158,110</u>	<u>\$ 12,443,108</u>	<u>\$ 67,601,218</u>

**C. Bond Authorizations**

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2015 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
12/01/03	Sewer	\$ 700,000
09/03/04	Water	46,175
12/16/05	Land Acquisition	500,000
04/08/09	Wastewater treatment facility	11,520
	Water treatment plant and pump	
09/10/10	station improvements	1,278,800
01/12/12	Sewer	6,270,000
06/05/12	Bresnahan school	165,433
06/05/12	Nock/Molin school	399,398
Total		<u>\$ 9,371,326</u>

**D. Changes in General Long-Term Liabilities**

During the year ended June 30, 2015, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/14</u>	Additions	Reductions	Total Balance <u>6/30/15</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/15</u>
<b><u>Governmental Activities</u></b>						
Bonds payable	\$ 35,109	\$ 9,280	\$ (1,995)	\$ 42,394	\$ (2,200)	\$ 40,194
Unamortized bond premiums	<u>2,524</u>	<u>389</u>	<u>(176)</u>	<u>2,737</u>	<u>(176)</u>	<u>2,561</u>
Total bonds payable	37,633	9,669	(2,171)	45,131	(2,376)	42,755
Compensated absences	3,594	539	(360)	3,773	(377)	3,396
Net OPEB obligation	20,947	5,818	(2,743)	24,022	-	24,022
Net pension liability	<u>31,363</u>	<u>-</u>	<u>(422)</u>	<u>30,941</u>	<u>-</u>	<u>30,941</u>
Totals	<u>\$ 93,537</u>	<u>\$ 16,026</u>	<u>\$ (5,696)</u>	<u>\$ 103,867</u>	<u>\$ (2,753)</u>	<u>\$ 101,114</u>
<b><u>Business-Type Activities</u></b>						
Bonds payable	\$ 56,835	\$ 1,700	\$ (3,377)	\$ 55,158	\$ (3,337)	\$ 51,821
Unamortized bond premiums	<u>-</u>	<u>174</u>	<u>(16)</u>	<u>158</u>	<u>(16)</u>	<u>142</u>
	56,835	1,874	(3,393)	55,316	(3,353)	51,963
Compensated absences	148	22	(14)	156	(16)	140
Net OPEB obligation	1,597	562	(58)	2,101	-	2,101
Net pension liability	<u>2,361</u>	<u>-</u>	<u>(32)</u>	<u>2,329</u>	<u>-</u>	<u>2,329</u>
Totals	<u>\$ 60,941</u>	<u>\$ 2,458</u>	<u>\$ (3,497)</u>	<u>\$ 59,902</u>	<u>\$ (3,369)</u>	<u>\$ 56,533</u>

#### **14. Deferred Inflows of Resources**

Deferred inflows of resources are the acquisition of net assets by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Governmental funds report *unavailable revenues* in connection with receivables that are not considered to be available to liquidate liabilities of the current period.

#### **15. Restricted Net Position**

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

#### **16. Governmental Funds - Balances**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The City has implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2015:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest

level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved by City Council, stabilization funds set aside by City Council vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the City's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various City departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the City's fund balances at June 30, 2015:

	General Fund	Bresnahan School Building Project	Nock/Molin School Building Project	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonspendable permanent funds	\$ -	\$ -	\$ -	\$ 1,281,245	\$ 1,281,245
Total Nonspendable	-	-	-	1,281,245	1,281,245
Restricted					
Capital project funds	-	-	-	3,472,114	3,472,114
Expendable permanent funds	-	-	-	943,725	943,725
CPA	-	-	-	1,446,223	1,446,223
Affordable housing	-	-	-	411,753	411,753
Downtown paid parking	-	-	-	385,210	385,210
School choice	-	-	-	1,072,016	1,072,016
Circuit breaker	-	-	-	277,694	277,694
Full-day kindergarten	-	-	-	204,496	204,496
Sewer I/I	-	-	-	500,105	500,105
Solid waste	-	-	-	296,170	296,170
CDBG - small cities	-	-	-	219,791	219,791
Waterfront bulkhead	-	-	-	189,603	189,603
Other special revenue funds	-	-	-	2,816,499	2,816,499
Total Restricted	-	-	-	12,235,399	12,235,399
Committed					
For capital stabilization	237,143	-	-	-	237,143
Total Committed	237,143	-	-	-	237,143
Assigned					
Encumbrances:					
General government	69,073	-	-	-	69,073
Public safety	6,125	-	-	-	6,125
Education	681,059	-	-	-	681,059
Public works	99,519	-	-	-	99,519
Health and human services	98,119	-	-	-	98,119
Employee benefits	8,683	-	-	-	8,683
Total Assigned	962,578	-	-	-	962,578
Unassigned - General fund	4,388,788	-	-	-	4,388,788
Unassigned - General stabilization account	2,542,763	-	-	-	2,542,763
Unassigned - Deficit funds	-	(1,027,134)	(1,799,781)	(300,724)	(3,127,639)
Total Unassigned	6,931,551	(1,027,134)	(1,799,781)	(300,724)	3,803,912
Total Fund Balance	\$ 8,131,272	\$ (1,027,134)	\$ (1,799,781)	\$ 13,215,920	\$ 18,520,277



## 17. Subsequent Events

### *Debt*

Subsequent to June 30, 2015, the City has incurred the following additional debt:

<u>Bond anticipation notes</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bresnahan School	\$ 1,827,720	2.00%	10/15/15	09/30/16
Nock/Molin School	<u>2,441,415</u>	2.00%	10/15/15	09/30/16
Total bond anticipation notes	<u>\$ 4,269,135</u>			

  

<u>General obligation bonds</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bresnahan School	\$ 1,986,000	2.125 - 2.50%	09/15/15	09/15/29
Nock/Molin School	995,000	2.125 - 2.50%	09/15/15	09/15/29
World War Memorial stadium field	3,027,000	2.125 - 2.50%	09/15/15	09/15/29
Cherry Hill soccer field	134,000	2.125 - 2.50%	09/15/15	09/15/29
Nock/Molin baseball field	1,680,000	2.125 - 2.50%	09/15/15	09/15/29
Fire trucks	908,000	2.125 - 2.50%	09/15/15	09/15/29
Harbormaster transient boater facility	<u>1,000,000</u>	2.125 - 2.50%	09/15/15	09/15/29
Total general obligation bonds	<u>\$ 9,730,000</u>			

## 18. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

## 19. Post-Employment Healthcare and Life Insurance Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-

employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

*A. Plan Description*

In addition to providing the pension benefits described, the City provides post-employment healthcare and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2014, the actuarial valuation date, approximately 493 retirees and 540 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

*B. Benefits Provided*

The City provides medical, life, and dental insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

*C. Funding Policy*

Retirees contribute 25% of the cost of the medical insurance, 10% of for life insurance, and 100% for dental insurance, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

*D. Annual OPEB Costs and Net OPEB Obligation*

The City's fiscal 2015 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2015, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2014.

Annual Required Contribution (ARC)	\$ 6,667,357
Interest on net OPEB obligation	901,764
Adjustment to ARC	(1,253,585)
Amortization of Actuarial (Gains)/Losses	<u>65,524</u>
Annual OPEB cost	6,381,060
Contributions made to pay benefits	(2,351,510)
Contributions made to OPEB Trust	<u>(450,000)</u>
Increase in net OPEB obligation	3,579,550
Net OPEB obligation - beginning of year	<u>22,544,102</u>
Net OPEB obligation - end of year	<u><u>\$ 26,123,652</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 6,381,060	43.9%	\$ 26,123,652
2014	\$ 4,993,142	35.3%	\$ 22,544,102
2013	\$ 4,925,585	34.4%	\$ 19,135,086
2012	\$ 5,651,432	45.1%	\$ 15,905,529
2011	\$ 5,389,223	44.5%	\$ 12,804,390
2010	\$ 7,136,512	31.3%	\$ 9,810,764

*E. Funded Status and Funding Progress*

The funded status of the plan as of July 1, 2014, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 66,815,622
Actuarial value of plan assets	<u>(25,000)</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 66,790,622</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>0%</u></u>
Covered payroll (active plan members)	<u><u>\$ 32,381,749</u></u>
UAAL as a percentage of covered payroll	<u><u>206.3%</u></u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required

contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**F. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation the individual entry age actuarial cost method was used. The actuarial assumptions included a 4.00% investment rate of return, general inflation rate assumption of 2.50% per year, and an initial annual healthcare cost trend rate of 6.00% which decreases to a 5.00% long-term rate for all healthcare benefits after eight years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated using a flat dollar amortization.

**20. Newburyport Contributory Retirement System**

The City follows the provisions of GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

**A. Plan Description**

The System is a member of the City of Newburyport Contributory Retirement Systems and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the City, the System is included as a pension trust fund in the City's basic financial systems.

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) and Newburyport Housing Authority are members of the City of Newburyport Contributory

Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid.

The System is governed by a five-member board. The five members include two appointed by the City, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of the Public Employee Retirement Administration Commission. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of each plan consisted of the following at December 31, 2014:

Retirees and beneficiaries receiving benefits	224
Terminated plan members entitled to but not yet receiving benefits	197
Active plan members	<u>345</u>
Total	<u><u>766</u></u>
Number of participating employers	2

#### **B. Benefits Provided**

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the City payroll on January 1, 1978, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly

amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

*C. Contributions*

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The City's contribution to the System for the year ended June 30, 2015 was \$3,997,885, which was equal to its annual required contribution.

*D. Summary of Significant Accounting Policies*

The accounting policies of the System as reflected in the accompanying financial statements for the year ended June 30, 2015 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized as revenue in the period in which the members

provide services to the employer. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

### Investments

#### *Investment Policy*

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

#### *Rate of Return*

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.56%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

#### *E. Net Pension Liability of Participating Employers*

The components of the net pension liability of the participating employers at June 30, 2015 were as follows (in thousands):

#### Net Pension Liability of Employers

Total pension liability	\$ 100,816
Plan fiduciary net position	<u>(66,725)</u>
Employers' net pension liability	<u>\$ 34,091</u>
Plan fiduciary net position as a percentage of total pension liability	66.18%

### Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

	January 1, 2014 rolled forward to December 31, 2014
Valuation Date	Entry Age
Actuarial cost method	
Actuarial assumptions:	
Investment rate of return	7.75%
	4.25% for Group 1 and 4.75% for Group 4
Projected salary increases	
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3 % on first \$12,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the December 31, 2014 valuation were based on the results of the most recent actuarial experience study dated January 1, 2014, which was for the period January 1, 2013 through December 31, 2013.

Mortality rates were based on pre-retirement rates that reflect the RP-2000 Employees table projected 22 years with Scale AA (gender distinct). Post retirement rates reflect the RP-2000 Healthy Annuitant table projected 17 years with Scale AA (gender distinct). For disabled retirees, this table is set forward 3 years for males.

### Target Allocations

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:



<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Real Return Arithmetic Basis</u>	<u>Long-term Expected Real Rate of Return</u>
International equity	22.0%	8.90%	1.96%
Fixed income	19.0%	5.90%	1.12%
Domestic equity	18.0%	7.90%	1.42%
Real estate	10.0%	6.50%	0.65%
Private equity	10.0%	9.80%	0.98%
Hedge Funds	9.0%	7.00%	0.63%
Timber/Natural Resources	4.0%	6.90%	0.28%
Private Debt	4.0%	8.30%	0.33%
Portfolio Completion Strategies	4.0%	N/A	N/A
Total	<u>100.0%</u>		7.37%
Inflation			<u>0.00%</u>
Expected arithmetic nominal return			<u>7.37%</u>

**Discount Rate:** The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the proportionate share of the net pension liability to changes in the discount rate:** The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate(in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
December 31, 2014	\$ 43,827	\$ 33,270	\$ 24,151

*F. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2015, the City reported a liability of \$ 33,269,748 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2014, the City's proportion was 97.591%.

For the year ended June 30, 2015, the City recognized pension expense of \$3,436,179. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 131,748

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ 33
2017	33
2018	33
2019	<u>32</u>
Total	<u>\$ 132</u>

**21. Massachusetts Teachers' Retirement System (MTRS)**

*A. Plan Description*

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified

teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

***B. Benefits Provided***

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

### C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

### D. Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

- (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
  - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
  - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
  - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term

expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2014 and 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2014</u>	<u>2013</u>
Global equity	43.0%	7.2%	7.70%
Core fixed income	13.0%	2.5%	2.00%
Hedge funds	10.0%	5.5%	4.75%
Private equity	10.0%	8.8%	9.00%
Real estate	10.0%	6.3%	6.00%
Value added fixed income	10.0%	6.3%	6.30%
Timber/natural resources	4.0%	5.0%	5.00%
Total	<u>100.0%</u>		

#### *E. Discount Rate*

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### *F. Sensitivity Analysis*

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease to 7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase to 9%</u>
June 30, 2013	\$ 21,426,000	\$ 17,234,000	\$ 13,672,000
June 30, 2014	\$ 20,247,000	\$ 15,896,000	\$ 12,200,000

#### G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

#### H. City Proportions

In fiscal year 2014 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the City was \$42,048,610 and \$2,921,319 respectively, based on a proportionate share of 0.264517%. As required by GASB 68, the City has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

### **22. Risk Management**

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

### **23. Beginning Fund Balance Reclassification**

The City's major governmental funds for fiscal year 2015, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/14 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/14 (as restated)
General Fund	\$ 7,427,049	\$ -	\$ 7,427,049
School building fund	(1,501,009)	1,501,009	-
Bresnahan School Building Project	-	(1,638,946)	(1,638,946)
Nock/Molin School Building Project	-	137,937	137,937
Nonmajor Funds	<u>8,964,990</u>	<u>-</u>	<u>8,964,990</u>
Total	<u>\$ 14,891,030</u>	<u>\$ -</u>	<u>\$ 14,891,030</u>

## 24. Beginning Net Position Restatement

The Town's beginning net position for fiscal year 2015 has been restated from the previous fiscal year to conform to GASB Statement 68. Fiscal year 2014 and prior periods have not been restated due to the impractical nature of allocating annual activity and lack of information for measurement dates June 30, 2012 and prior; as this is a new standard and beginning net position restatement does not recognize beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions per GASB 71. Accordingly, the following reconciliation is provided:

### Government-Wide Financial Statements:

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>
As previously reported	\$ 67,693,877	\$ 54,141,308
GASB 68 implementation for net pension liability	<u>(31,363,067)</u>	<u>(2,360,661)</u>
As restated	<u><u>\$ 36,330,810</u></u>	<u><u>\$ 51,780,647</u></u>

### Fund Basis Financial Statements:

	Sewer <u>Fund</u>	Water <u>Fund</u>
As previously reported	\$ 25,123,623	\$ 28,351,353
GASB 68 implementation for net pension liability	<u>(1,011,712)</u>	<u>(1,348,949)</u>
As restated	<u><u>\$ 24,111,911</u></u>	<u><u>\$ 27,002,404</u></u>

**CITY OF NEWBURYPORT, MASSACHUSETTS**  
**SCHEDULE OF FUNDING PROGRESS**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2015**  
**(Unaudited)**

<b>Other Post-Employment Benefits</b>						
Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
07/01/14	\$ 25,000	\$ 66,815,622	\$ 66,790,622	0.0%	\$ 32,381,749	206.3%
07/01/12	\$ -	\$ 50,365,955	\$ 50,365,955	0.0%	N/A	N/A
07/01/10	\$ -	\$ 64,860,191	\$ 64,860,191	0.0%	N/A	N/A
07/01/08	\$ -	\$ 74,485,260	\$ 74,485,260	0.0%	N/A	N/A

See Independent Auditors' Report.



**CITY OF NEWBURYPORT, MASSACHUSETTS  
SCHEDULE OF PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2015  
(Unaudited)  
(In thousands)**

<u>Newburyport Contributory Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	97.591%
Proportionate share of the net pension liability for the most recent measurement date	\$ 33,270
Covered-employee payroll for the most recent measurement date	\$ 15,551
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	213.94%
Plan fiduciary net position as a percentage of the total pension liability	66.18%
<u>Massachusetts Teachers' Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	0.264517%
The Town's proportionate share of the net pension liability for the most recent measurement date	\$ -
Commonwealth of Massachusetts' total proportionate share of the net pension liability that is associated with the Town	<u>42,049</u>
Total net pension liability associated with the Town	\$ <u><u>42,049</u></u>
Covered-employee payroll for the most recent measurement date	\$ 16,219
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0%
Plan fiduciary net position as a percentage of the total pension liability	61.64%

*Schedules are intended to show information for 10 years. Additional years will be displayed as they become available*

See Independent Auditors' Report.

**CITY OF NEWBURYPORT, MASSACHUSETTS  
SCHEDULE OF CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2015  
(Unaudited)  
(In thousands)**

	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 3,998
Contributions in relation to the contractually required contribution	<u>(3,998)</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>
Covered-employee payroll for the current fiscal year	\$ 15,176
Contributions as a percentage of covered-employee payroll	26.34%

*Schedules are intended to show information for 10 years. Additional years will be displayed as they become available*

See Independent Auditors' Report.

**CITY OF NEWBURYPORT, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM**

**Schedule of Changes in the Net Pension Liability**

(Unaudited)  
(In Thousands)

	<u>2015</u>
<b>Total pension liability</b>	
Service cost	\$ 2,154
Interest on unfunded liability - time value of \$	7,459
Benefit payments, including refunds of member contributions	<u>(5,770)</u>
Net change in total pension liability	3,843
Total pension liability - beginning	<u>96,973</u>
<b>Total pension liability - ending (a)</b>	<u><u>\$ 100,816</u></u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 4,098
Contributions - member	1,493
Net investment income	4,655
Benefit payments, including refunds of member contributions	(5,770)
Administrative expense	(191)
Other	<u>20</u>
Net change in plan fiduciary net position	4,305
Plan fiduciary net position - beginning	<u>62,420</u>
<b>Plan fiduciary net position - ending (b)</b>	<u><u>\$ 66,725</u></u>
<b>Net pension liability (asset) - ending (a-b)</b>	<u><u>\$ 34,091</u></u>

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

See notes to the City's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

**CITY OF NEWBURYPORT, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM**

**Schedules of Net Pension Liability, Contributions, and Investment Returns**

**(Unaudited)  
(In Thousands)**

**Schedule of Net Pension Liability**

	<u>2015</u>
Total pension liability	\$ 100,816
Plan fiduciary net position	<u>66,725</u>
Net pension liability (asset)	<u>\$ 34,091</u>
Plan fiduciary net position as a percentage of the total pension liability	66.18%
Covered employee payroll	\$ 15,551
Participating employer net pension liability (asset) as a percentage of covered employee payroll	219.22%

**Schedule of Contributions**

	<u>2015</u>
Actuarially determined contribution	\$ 4,098
Contributions in relation to the actuarially determined contribution	<u>4,098</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 15,551
Contributions as a percentage of covered employee payroll	26.35%

**Schedule of Investment Returns**

*Year Ended December 31*

	<u>2014</u>
Annual money weighted rate of return, net of investment expense	7.56%

*Schedules are intended to show information for 10 years.  
Additional years will be displayed as they become available.*

See Independent Auditors' Report.